LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7080
BILL NUMBER: HB 2130

DATE PREPARED: May 2, 2001
BILL AMENDED: Apr 29, 2001

SUBJECT: Enterprise Zones.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (CCR Amended) *Qualified Employee Wage Deduction:* This bill provides that a person who resides in an Enterprise Zone (EZ) and is an employee of a nonprofit entity or local, state, or federal government is eligible for the Qualified Employee Wage Deduction.

New EZ date extension: This bill extends from December 31, 2003, to December 31, 2015, the date beyond which the State Enterprise Zone Board is prohibited from adding new EZs. It also specifies that the designation of an EZ in a municipality in which a previously designated Zone has expired does not count against the limit allowing only two new EZs to be designated each year.

Late Filing Penalty: This bill provides that if an EZ business does not file the required verified summary of tax credits and tax exemptions claimed during the preceding year before the June 1 deadline and does not file for an extension, the EZ business waives those credits and exemptions unless it pays, before July 16, a penalty equal to 15% of the credits and exemptions provided during the preceding year.

Investment Cost Credit: The bill also specifies that high technology business operations are eligible for a 5% Enterprise Zone Investment Cost Credit.

IDA Program: The bill eliminates the expiration clauses of the Individual Development Accounts (IDA) Program. The bill expands the authorized uses of the individual development account to include: (1) reducing the principal amount owed on a primary residence that was purchased with money from an individual development account; and (2) expanding existing small businesses. It specifies that a qualified individual may use the account funds to pay for tuition, laboratory costs, books, and computer costs at an accredited institution of higher education, vocational school, or licensed or accredited training program. The bill provides that a qualified individual includes a member of a household with an annual household income of less than 175% of the federal income poverty level. (Current law provides for a limit of 150% of the poverty level.) The bill allows the funds of an individual development account to be rolled over into an Indiana

Family College Savings Program account. The bill reduces the maximum tax credits to $200,000.

Effective Date: (CCR Amended) June 30, 2001; July 1, 2001; January 1, 2002.

Explanation of State Expenditures: (Revised) *Tax Deduction/Credit:* The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to make changes regarding the Qualified Employee Wage Deduction and the EZ Investment Cost Credit. These expenses could be absorbed given the DOR's existing budget and resources.

IDA Program: This bill extends the IDA program with the elimination of the July 1, 2001, expiration date. This program was established by P.L. 15 -1997 and allowed up to 800 individuals who receive Temporary Assistance to Needy Families (TANF) assistance **or** had income less than 150% of the federal poverty level to establish savings accounts. These accounts would receive a three-to-one match of state funds. The program limits the state match to $900 per account.

This bill expands the uses of the IDA account in the following areas:

1. Costs at an accredited institution of higher education, a vocational school, or an accredited or licensed training program, including tuition, laboratory costs, books, computer costs, and other costs associated with attendance.
2. Reduction of the principal amount owed on a primary residence that was purchased by the individual or dependent of the individual with money from an individual development account.
3. Expansion of an existing business.
4. Rollover into an Indiana Family College Savings Account.

This bill also expands the income eligibility from 150% to 175% of the federal income poverty level. This change will allow more individuals to be eligible for this program. Also, these individuals would be eligible for the federal IDA program and could receive federal matching funds. In 1999, Indiana was awarded a grant of $930,000, renewable for five years, from the Asset for Independence Act (AFIA) which provides an additional three-to-one matching grant to individuals with IDA accounts. The federal program was recently amended to include individuals up to 200% of poverty. (S 3214 - 2001)

Over the first three years of the program, 45 community development corporations (CDCs) were approved to administer the program. Currently, 39 CDCs have enrolled 1,457 individuals. The table below shows the number of active savings accounts, along with the corresponding state and federal match.

Fiscal Year	Accounts	State Match	Fed Accounts	Fed Match
1998	351	$212,210		
1999	509	$327,777		
2000	978	$832,284	580	$399,852
Total		$1,372,272	580	$399,852

<u>The cost to the Department of Commerce for providing program support to community development corporations is expected to total $200,000 in each of FY 2002 and FY 2003.</u>

The current IDA program limits the annual amount appropriated as the state match for each individual development account to $900 per account. An individual account may not receive more than four years of state matching funds. The IDA program also limits the number of accounts which can be established each year to 800. The maximum number of accounts which could exist when the program is fully implemented is 3,200 (since an account can only receive funds for four years). <u>The program will require approximately $720,000 in FY 2002, $1,440,000 for FY 2003, $2,160,000 in FY 2004, and $2,880,000 in years after to fully fund the maximum number of accounts (3,200) with the maximum potential match ($900)</u>.

Background: Currently, IDA program expenditures qualify under the state's Maintenance of Effort (MOE) requirements for the Temporary Assistance to Needy Families (TANF) program.

<u>Explanation of State Revenues:</u> (Revised) *Qualified Employee Wage Deduction:* This bill would allow EZ residents employed by nonprofit entities, local units of government, the state of Indiana, and the federal government to claim the Qualified Employee Wage Deduction. It is unknown how many additional individuals might be eligible under this bill. The deduction is currently available to EZ residents who are employed within the Zone. These individuals may deduct the lesser of one-half of income earned within the EZ or $7,500 from their state taxable income. For each eligible taxpayer who is able to deduct the maximum of $7,500, there would be a reduction of $255 in income tax liability ($7,500 multiplied by the Individual Adjusted Gross Income Tax rate of 3.4 %).

According to DOR data, in 1998 there were 1,791 taxpayers who deducted a total of $11.5 M in personal income, resulting in a tax liability reduction of $391,000. For each additional 1,000 employees who are eligible under this proposal, there would be a corresponding revenue loss of up to $255,000. The expansion of this deduction is effective January 1, 2002 and will affect revenue collections beginning in FY 2003. Individual Income Tax revenue is deposited in the General Fund.

New EZ date extension: This bill would extend the deadline for establishing new Enterprise Zones by twelve years from December 31, 2003 to December 31, 2015. It also provides that the designation of an EZ in a community where a previous Zone had expired does not count against the limit of two new EZs each year. The effects of the economic development associated with EZs and the various corporate and individual tax incentives available to Zone business and residents cannot be determined. The impact ultimately depends on the number of zones established and their size and location. There are currently 25 EZs in Indiana including three former military bases. The two newest Zones in Mitchell and Portage were established in December 2000.

Penalty for late filing: Current law provides that if a business does not file a summary of the Zone-related tax credits and exemptions claimed in the preceding year with the state EZ Board and the local Urban Enterprise Association by a certain date, the business must then waive these incentives. (However, an extension may be requested.) This bill provides that if a Zone business misses the deadline and does not file for an extension, it must pay a penalty equal to 15% of the incentives claimed by the Board in order to receive any EZ credits or exemptions.

The amount of revenue that would be generated through this penalty is not known, but would ultimately depend on the number of late filers. Penalties would be deposited in the state Enterprise Zone Fund administered by the Indiana Department of Commerce (IDOC). The balance of this fund as of January 2001 is approximately $570,000.

Investment Cost Credit: This bill also allows the existing EZ Investment Cost Credit to be taken for investments made in high technology businesses. Under current law, this credit is available to taxpayers making a purchase of ownership in a business located in a Zone. If the purchase is deemed eligible after review by IDOC, the taxpayer may receive a credit equal to the investment multiplied by a certain percentage. The percentage applied varies based on the business sector in which the firm is engaged, the number of jobs created, and the amount of the investment. The total percentage may not exceed 30%.

This bill allows an investor in a high technology business to receive a 5% EZ Investment Cost Credit. Current law provides a 2% credit for retail, professional, and warehouse/distribution operations and a 5% credit for manufacturing businesses. High technology businesses are defined as those having research expenses in advanced computing or materials, biotechnology, electronic device technology, environmental technology, and medical device technology.

The amount of any additional tax credits associated with this bill is unknown, but the impact could begin in FY 2003. From CY 1997 through CY 1999, the IDOC approved more than $844,000 in EZ Investment Cost Credits. If these credits exceed a taxpayer's liability in a given year, the excess may be carried forward. No carrybacks or refunds are permitted.

IDA Program: This bill reduces the amount of tax credits that may be claimed by businesses who make a contribution to a community development corporation participating in the IDA program from the current level of $500,000 to $200,000. Over the first three years of the program, only one community development corporation used the credit for a total of $45,000. This change will reduce the state's exposure for this credit by $300,000 annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Qualified Employee Wage Deduction:* Counties imposing local option income taxes will experience an indeterminable reduction in revenue from these taxes as a result of expanding the pool of taxpayers eligible for this deduction.

State Agencies Affected: Department of State Revenue, Indiana Department of Commerce, Enterprise Zone Board.

Local Agencies Affected: Counties imposing local option income taxes.

Information Sources: DOR income tax data; Leslie Richardson, Director, Division of Research, Indiana Department of Commerce, (317) 232-8962.